Reclaim Finance response to consultation on draft GFANZ paper:
"Defining Transition Finance and Considerations for Decarbonization Contribution Methodologies"

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These comments are endorsed by:

AnsvarligFremtid (Denmark) • BankTrack (Netherlands) • Carbon Market Watch (Belgium)
Center for Energy, Ecology and Development (Philippines) • Rainforest Action Network (USA)
ReCommon (Italy) • Sierra Club (USA) • Urgewald (Germany)

1) Summary

This consultation paper[1] claims to aim to "complement" current finance sector decarbonization approaches, in particular those based on financed emissions[2] targets, with a new future-focused methodology. This Expected Emission Reductions (EER) methodology would reward financial institutions (FIs) for the projected volume of emissions that would be avoided due to the transition plans of their investees and clients. GFANZ argues that current FI approaches to decarbonization incentivize FIs to divest[3] from high emission companies. Yet what is needed to reduce real-world emissions, GFANZ claims, is for carbon-intensive companies to be provided with more capital and financial services to enable them to invest in their transition.

Approaches to aligning FIs with 1.5°C that focus only or mainly on financed emission targets and lack strong engagement policies and exclusion criteria are indeed inadequate.[4] However the proposed EER methodology would likely only make matters worse in the real world. It would encourage continued allocation of finance toward fossil fuel companies and other major polluters, with no guarantees of robust engagement processes to ensure the implementation of credible transition plans. While GFANZ says the methodology would complement current approaches, there is a risk that it would become a core "transition" metric for FIs. Another risk is that the EER approach could be taken up in the growing efforts to incorporate climate considerations into financial regulations.

[1] GFANZ, Defining Transition Finance and Considerations for Decarbonization Contribution Methodologies: Consultative Document, September 2023
[2] We use "financed emissions" here to mean financed, facilitated and insurance-associated emissions. See carbonaccountingfinancials.com
[3] The term "divest" appears to be used by GFANZ to describe not just the sale of equity stakes, but the removal of all types of financial services.
[4] See e.g. Reclaim Finance, Throwing Fuel on the Fire: GFANZ financing of fossil fuel expansion, pp.28-29, January 2023

The fatal flaw of the EER approach is that it is based on calculating the gap between a counterfactual baseline of supposed "business-as-usual" emissions for a company or sector which fails to transition, and the projected emissions pathway in a future where its transition plan is successfully implemented. Both the baseline and the pathway would require a complex, inevitably opaque and easily gamed set of subjective assumptions on factors such as energy demand, economic growth, corporate performance, and legal, regulatory, political and social changes, over many years, potentially decades. Because of this complexity, and because a counterfactual can never be proven right or wrong, companies and their financiers could use extremely favorable assumptions to boost the delta between the baseline and the target pathway.

This reliance on a fictitious unit of measurement based on subjective counterfactuals and projections parallels the conceptual foundation of carbon offsets — and is a key reason why that market is beset with scandals.[5] GFANZ should take note of the current legitimacy crisis in the offsets market if it wants to see where its EER proposal would likely lead if it were ever to be adopted.

"Engagement" with polluters is currently a key part of the recommendations and guidelines of GFANZ and its alliances. But if GFANZ is now saying that current approaches are leading to divestment and not reducing emissions, this is an implicit admission that their current engagement practices are not working to bring down their clients'/investees' emissions. The logical conclusion to draw from this would be that engagement practices need to be strengthened, but there are no suggestions in this paper on how to do this (or even a recognition that it is necessary). And rather than putting teeth into engagement by threatening financial sanctions for low-performers, the impact of the EER approach would be to reward with more finance those who pollute the most.

A critical problem with this paper is that it fails to distinguish between the approaches needed to push fossil fuel companies to stop expanding and then start phasing out their products, with those needed for companies in sectors with products that society is likely to continue to need in large volumes over the long term. Fossil fuel companies are currently awash with cash and, as numerous studies have shown, are making at best a mostly performative effort to transition to clean energy.[6] It is therefore hard to see the logic behind the position that pushing these companies to finally pull back on their production, transport and processing of oil, gas and coal — and their promotion of fossil fuel consumption and

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[5] See e.g. Error Log: Exposing the methodological failures of REDD+ forestry projects, Carbon Market Watch, September 2023. This is just one of the most recent examples of the extensive literature on the repeated and ongoing failures of the last two decades of offsetting (see e.g. International Rivers, Failed Mechanism: Hundreds of Hydros Expose Serious Flaws in the CDM, December 2007; B. Haya, Measuring Emissions Against an Alternative Future: Fundamental Flaws in the Structure of the Kyoto Protocol's Clean Development Mechanism, UC Berkeley School of Public Policy, December 2009; New York Times, A Carbon Trading System Draws Environmental Skeptics, 12 October 2010; Öko-Institut, How additional is the Clean Development Mechanism, March 2016; Financial Times, Carbon offset gold rush is distracting us from climate change, 22 November 2019; West et al., Overstated carbon emission reductions from voluntary REDD+ projects in the Brazilian Amazon, PNAS, 29 September 2020; Bloomberg, How to Sell 'Carbon Neutral' Fossil Fuel that Doesn't Exist, 10 August 2021; Carbon Direct, Assessing the State of the Voluntary Carbon Market in 2022, 6 May 2022; Guardian, Revealed: more than 90% of rainforest carbon offsets by biggest certifier are worthless, analysis shows, 18 January 2023; Airlines want you to buy carbon offsets. Experts say they're a 'scam', Washington Post, 17 April 2023; A Chapman and D. Masie, Are carbon offsets all they're cracked up to be? We tracked one from Kenya to England to find out, vox.com, 3 August 2023; J. Gabbatiss, Analysis: How some of the world's largest companies rely on carbon offsets to 'reach net-zero', Carbon Brief, 27 September, 2023; H. Blake, The Great Cash-For-Carbon Hustle, New Yorker, 16 October, 2023)

[6] See e.g. Reclaim Finance, TotalEnergies, BP, Shell and ENI will blow up their carbon budget by up to 80%, 14 March 2022; Oil Change International, Big Oil Reality Check: Updated Assessment of oil and gas company climate plans, May 2022

lobbying against climate legislation — is not only to continue providing them with huge amounts of loans, investments and financial services, but to offer them even more.

For some currently highly carbon-intensive industries, such as cement, steel and aluminum, their products cannot easily be substituted and will continue to be needed in high volumes. In these cases, transition finance is needed, but no case studies are presented in this paper to show that the EER concept would be an effective tool to speeding up these transitions. Nor is any convincing evidence presented to show that approaches based on well-designed sectoral policies including engagement/stewardship measures with financial consequences for not meeting agreed benchmarks would dissuade the provision of transition finance to companies with robust transition plans.

In addition to pushing EER for high-carbon companies, the paper recommends that an "avoided emissions" approach should be used for evaluating the impact of financing for climate solutions. This approach has been used in the past by renewables developers, and their financiers. But it has come under strong criticism and has mostly been dropped, including because of the problem of exaggerated baselines (for example assuming that electrical grids will only decarbonize very slowly), and the fact that a company does not reduce its real-world emissions by, for example, generating additional megawatts of clean power, or producing more EVs, but by phasing out its coal plants or petroleum-powered vehicles.[7]

One area, however, where "avoided emissions" does make sense is in comparing the benefits of early closures of specific pieces of high-emission infrastructure such as coal plants, although also in this case projected avoided emissions must not be used to offset actual emissions.

A useful concept introduced (yet unfortunately rather buried) in the paper is that of Expected Cumulative Emissions (ECE). ECE allows an FI to evaluate if the annual emission reductions targeted in an entity's transition plan are aligned with net zero, and it should be a required part of company and FI transition plans.

The answer to the flaws and lack of ambition of FI finance emissions targets is to improve these methodologies and their implementation. It is also imperative that decarbonization targets be just one part of FIs' net-zero transition plans. Key elements of these plans have been outlined by the UN High-Level Expert Group on net zero (HLEG), and must include effective engagement, exclusion and voting criteria, and an end to finance for fossil fuel expansion. Where increased financing for carbon-intensive companies or projects can be justified, for example where finance enables phaseouts of dirty power plants, this can be ringfenced as "transition finance", as long as it is accompanied with robust environmental and social safeguards, including that its recipients are not building new fossil fuel plants.

2) Expected Emission Reductions: More Money for Big Polluters, Business-as-Usual for Financiers

GFANZ argues that current approaches based upon measuring and bringing down the emissions from the companies in FIs' portfolios disincentivize them "from going to where the emissions are and providing financing to bring them down over time" (p.26). Given that this assertion is core to the rationale for the new approach proposed in this paper, it is surprising that no case studies or modeling is presented to show that current approaches are indeed disincentivizing FIs from accelerating the transition.

[7] See e.g. Carbon Market Watch, Corporate Climate Responsibility Monitor 2023, p.67, February 2023

The most important place "where the emissions are" is the fossil fuel sector, yet there is no discussion in the paper that addresses this sector specifically. When it comes to the oil and gas sector, any argument that the major companies are either a) serious about transitioning or b) lack the resources to pay for the transition at a time of high oil prices is risible. Repeated studies show the tiny proportion of their budget that oil and gas companies are putting into sustainable alternatives. The IEA reports that the oil and gas industry's capital spending on low-emission alternatives (including supposedly "clean fuels" and carbon capture technology) was less than 5% of their upstream spending in 2022.[8]

For the coal industry there is plenty of evidence that the withdrawal of finance, including insurance, is making it harder for companies to raise capital and continue their operations.[9] Yet while plans to develop new coal projects have been drastically cut back, companies still plan a huge amount of new coal capacity.[10] There is no excuse at this point for any new investments in coal expansionists, even if they sincerely promise that they will soon stop building new plants or mines.

Phasing out the huge fleet of existing coal plants will require financing, especially given the imperative that workers and local communities are treated fairly and environmental harms repaired. If GFANZ members are concerned any financing committed to phase out coal would make their financed emissions numbers look bad, one answer is that they can report separately as "phaseout emissions" any emissions clearly linked to financing committed specifically to the goal of the early closure of coal plants (or other coal infrastructure such as steel blast furnaces). To do this, FIs would need to adopt policies halting finance for coal developers, and be able to show that the phaseouts they finance contain robust commitments that the phaseouts will happen on schedule, with social and environmental safeguards, and that lost power generation will be replaced with sustainable renewables and efficiency.

Other highly polluting sectors, including steel and cement, will also require transition finance. Decarbonizing steel is estimated to cost additional investments of US$8-11 billion annually. Real money, but just a fraction of the US$669 billion the world's 60 largest banks provided to the fossil fuels industry in 2022. Any increase in an FI's portfolio-wide financed emissions from increased support to steel companies that are transitioning should be dwarfed by the financed emissions reductions to be gained from phasing out its support for fossil fuels (and for steel companies that refuse to transition).

In addition, any steel company that is serious about net zero needs to reduce its emissions fast. The IEA's 2023 Net Zero Roadmap shows that emissions from the steel sector need to fall by an annual average of 2.6% between 2022 and 2030.[11] Financed emissions are a function of the quantity of finance provided to a company and of the emissions of that company. So increased finance to a company will not necessarily increase a bank's or investor's financed emissions if the emissions of that company are also falling.

An unfortunate feature of the most commonly used financed emissions methodology, that of the Partnership on Carbon Accounting Financials (PCAF), is that financed emissions are attributed to individual FIs using a corporate bookkeeping metric called enterprise value including cash (EVIC).[12] EVIC

[8] IEA, Clean energy investment is extending its lead over fossil fuels, boosted by energy security strengths, 25 May 2023
[9] See e.g. IEEFA, Two Economies Collide: Competition, Conflict, and the Financial Case for Fossil Fuel Divestment, p.100-103, October 2022; IEA, World Energy Investment 2020, p.66, July 2020; IEA, World Energy Investment 2021, p.37, June 2022; IEA, World Energy Investment 2022, p.102, June 2022; IEA, World Energy Investment 2023, p.100, May 2023; Reuters, Insight: Coal miners forced to save for a rainy day by insurance snub, 31 August 2023
[10] Urgewald, The 2023 Global Coal Exit List: Failing the Phase-Out, 19 October 2023
[11] IEA, Net Zero Roadmap: A Global Pathway to Keep the 1.5°C Goal in Reach. 2023 Update, Table A.4, p.198, September 2023
[12] See carbonaccountingfinancials.com

is the sum of a company's market value (the total value of all its outstanding shares) plus its debt. The result of this is that as a company's share price and debt levels move up and down so the financed emissions of its banks and investors can vary wildly even if the institution's exposure and the corporation's emissions stay the same.[13] The result of this is that financed emissions is a highly volatile measurement, and that any impact upon an institution's overall financed emissions from increased support of some carbon-intensive, but quickly transitioning, companies, is likely to be lost in the noise of the many other factors — including changing emissions measurement practices — which impact financed emissions calculations.

Expected emission reductions, versus actual reductions

GFANZ's proposed answer to this supposed problem of financiers being disincentivized from supporting corporate net-zero transitions, is the creation of a new unit labelled Expected Emission Reductions (EER). This is proposed as a means of measuring the quantity of emissions expected to be avoided due to specific financing decisions.

The amount of EER generated by a company is based on the gap between its estimated business-as-usual (BAU) baseline emissions, and the projected lower emissions from the transition pathway which the company is able to achieve due to the finance it receives. The paper is not clear over what timespan EER should be generated, but it presumably could be over the lifetime of a loan, or over the period between the financing decision and medium-term (say 2030) or long-term (say 2050) targets.

The BAU benchmark is supposed to quantify "what would have happened if no efforts to transition were made" (p.28). An example is given of an institution wishing to finance a company transitioning from gas-powered heating systems to heat pumps. In this case the BAU benchmark would assume that the company would continue using gas-powered heaters. And the transition pathway emissions would be calculated from the emissions factor of the electricity used to power the heat pumps, and the rate at which the heat pumps were installed.

A work of fiction

This seemingly simple calculation in reality contains within it a morass of highly subjective assumptions which would render EER effectively useless in measuring an FI's contribution to real-world emission reductions. For the BAU benchmark, no one can ever accurately know what would have happened in the counterfactual world where financial institution A turned down company Z's application for a loan or investment. Perhaps company Z would have received the financing from another institution and continued to implement its transition plan. Or perhaps the local or national government would have provided grants or low-cost financing for company Z under its climate policies. Perhaps the company would be required by law at some time to swap out its dirty gas heaters.

The point is that nobody knows what would have happened in the fictional world where financial institution A did not finance company Z at this specific point in time. So it is impossible to generate a "real" BAU emissions baseline, with the range of possible permutations of what might happen growing greater the longer the period the baseline is supposed to cover (would the company even exist in 5 or 10

[13] See e.g ShareAction, Why banks should account for their full share of facilitated emissions, pp.4-5, May 2023; Columbia Center on Sustainable Investment, Finance for Zero: Redefining financial-sector action to achieve global climate goals, pp.14-15 June 2023

years? would it be bought by another company with more or less ambitious net zero plans? would rising temperatures make heating less necessary?).

But it is not only the so-called BAU emissions which are in reality unknowable and unmeasurable. The quantity of emissions from the "transition" pathway suffers from similar problems. There is no guarantee (and in fact it is more unlikely than not) that company Z's transition plan roll-out will go exactly to plan. Perhaps the local heat pump market would run into supply chain problems. Perhaps inflation or labor shortages would slow down its installation rate. And how knows exactly what the emissions factor for the grid power used by the heat pumps might be in five or ten years? Or how efficient the heat pumps installed in several years' time might be. A company replacing gas heaters with heat pumps is a rather simple example: quantifying BAU and transition pathway emissions over time for a large industrial conglomerate with hundreds or thousands of separate emissions sources would introduce orders of magnitudes more potential pathways.

GFANZ does note that an entity's projected emissions may not fall as quickly as those in the pathway used to calculate the EER. In this case, GFANZ notes, "the EER should be revised downward accordingly" (p.32). The problem with this post facto correction is that it will only happen after the finance has been provided — potentially many years after depending on how often corrections are made — and the emissions have occurred. It is even implied that under the EER approach the consequence for a company that is failing to implement its transition plan would be for it to be rewarded with more financing to supposedly help get it back on track.[14]

The EER concept is in effect based on the ability to accurately enumerate the gap between two unknown and unknowable numbers. While this means that an EER will always be a junk number, it will not be a completely random number because the company and FI that develops the EER will always have incentives to come up with as large a number for their EER which they feel they can get away with. And because no counterfactual baseline can ever be wrong or right, and because the two projections used to generate the EER will be constructed based on a host of variables that in turn require numerous inevitably opaque assumptions, FIs and companies can be confident of getting away with presenting extremely high EER numbers.[15]

Following carbon offsetting down the counterfactual rabbit-hole

Anyone who has spent time studying the methodological difficulties of carbon offsets will surely recognize the inherent problems with GFANZ's proposed EER concept. After more than two decades of trying, the carbon offsetting market is still grappling with the impossibility of quantifying the difference in emissions between a) inherently unknowable no-project baselines, and b) the emissions pathway with whatever project is claiming offset income. Repeated studies have called attention to the fact that all the key participants in offset markets have an interest in maximizing credit generation and so tend to create counterfactual baselines and pathways that are strongly biased toward high BAU emissions and low with-project emissions.[16] Exactly the same mechanism would come into play for EER quantification.

[14] See text box on p.34 ("Use case for the EER metric to analyze an entity's deviation from a net-zero pathway")
[15] GFANZ does not propose that baselines be determined by independent third parties, but by the relevant company and its financier (p.32).
[16] See note 6, supra

GFANZ should take warning from the fact that confidence in the integrity of the offsets market is perhaps at its lowest levels ever despite numerous efforts to fix its problems over the past two decades and more.[17] Widespread adoption of the EER methodology would risk creating a similar crisis in credibility for the financial sector's efforts to address climate change.

The need for a new attribution methodology

The paper proposes attributing EER to FIs using the methodology developed by the Partnership for Carbon Accounting Financials (PCAF) for the attribution of financed emissions. The advantage of using the PCAF methodology is that it is widely accepted and used. However, as noted above, it has serious drawbacks which limit its usefulness. Although it recommends using the PCAF methodology, the paper does rightly refer to the need to develop "a more refined attribution analysis." (p.40).

Expected Cumulative Emissions: A helpful proposal

GFANZ is not wholly unaware of the minefield that it risks walking into with the EER concept. The paper admits that determining a BAU scenario

> "is often challenging as it involves making predictions of the emissions that would have occurred in the absence of a specific intervention or project. This prediction can be complex and may involve uncertainties related to factors like economic growth, technological advancements, policy changes, and other external variables" (p.31).

Unfortunately this admission does not lead GFANZ to jettison EER, but instead it proposes that these challenges can be mitigated by complementing EER with the concept of Expected Cumulative Emissions (ECE). ECE is introduced in a very brief section and is ignored in the rest of the paper. Unlike other ideas put forward in the paper it is a straightforward and logical proposal.

ECE represent the cumulative total of expected remaining emissions of an entity or asset between the present and the time when it reaches net zero. As such it allows an FI to evaluate if the annual emission reductions targeted in an entity's transition plan are actually aligned with net zero, and to monitor its progress at aligning with net zero. It is a useful concept and ECE calculations should be a required part of company and FI transition plans.

3) Avoided Emissions for Climate Solutions: Another Counterfactual Trap

GFANZ proposes measuring the impact of finance for climate solutions based on avoided emissions approaches. Attempts to quantify sector or economy-wide avoided emissions due to the implementation of climate solutions, however, bring up the same problems of counterfactual baselines as do EERs and carbon offsets. These include the need to use a multitude of highly subjective assumptions over multi-year periods, and the incentives to always choose assumptions which maximize the benefits to those making the assumptions. In any case, what is important when assessing a company's climate impact is not how many GHGS it is NOT emitting, but how many it IS emitting.

[17] See e.g. Billionaire Forrest's Fortescue to Stop Using Carbon Offsets, Bloomberg, 19 September 2023; Financial Times, The death of carbon neutrality, 25 September, 2023; Stop pretending that planting trees can justify fossil fuel emissions, Fast Company, 12 October 2023

The greenwashing inherent in using avoided emissions as a metric for climate impact is widely recognized. The GHG Protocol already decided in 2004 that avoided emission claims may not be accounted against scope 1, 2 or 3 emissions. More recently, the 2022 International Standards Organization's Net Zero Guidelines also decided against companies being able to count avoided emissions in net-zero claims.[18]

The Science Based Targets initiative does not allow companies to count avoided emissions in meeting their targets.[19] In 2021 Mark Carney, co-chair of GFANZ, was widely criticized for claiming that his infrastructure investment company Brookfield had reached net zero because of the avoided emissions of its renewables projects cancelled out the emissions from its gas infrastructure. Carney later rescinded this claim and stated that "I have always been – and will continue to be — a strong advocate for net zero science-based targets, and I also recognize that avoided emissions do not count towards them."[20]

4) The Special Case of Managed Phaseout Finance

While avoided emissions metrics are unsuitable for measuring overall climate solutions finance, they are less problematic when it comes to the managed phaseouts (MPOs) of specific pieces of high-emitting infrastructure such as coal or gas plants. These plants have a historical record of emissions and fewer assumptions are likely to be necessary than when constructing BAU baselines for entire companies or sectors. Because the calculations will be simpler, they are also likely to be more transparent. However avoided emissions numbers can still be gamed in the context of MPOs so carefully monitoring will be required to prevent this (e.g. there will always be uncertainties over how long the plants might operate in future in the absence of phaseout finance, and how many hours a year they might run as renewable penetration increases on a grid). Avoided emission calculations will also be important when assessing which phaseouts should be prioritized due to their emissions reductions potential.

The paper does not go into significant detail on MPOs, as GFANZ Asia-Pacific (APEC) is currently working on a report on this issue. However, the statement that MPO finance "does not encompass the alternative assets that may be constructed or deployed to replace the assets designated for phaseout" (p.20) is concerning. While the paper seems to assume that such alternative assets would be "clean power," utilities have often replaced, or have wanted to replace coal plans with other forms of high-carbon generation such as fossil gas and biomass. Finance should only be able to be labelled as part of managed phaseouts if any replacement assets are low/zero carbon and sustainable.

The paper repeats the argument made in the draft GFANZ APEC report that FIs will be discouraged from investing in coal phaseouts because this would increase their reported financed emissions. However neither in the draft MPO report or here is any evidence provided to show that the likely sizes of investments and loans in coal MPOs would necessarily cause meaningful and sustained increases in overall portfolio financed emissions. In any case, if financing well-designed coal phase-outs with strong social and environmental safeguards does set back efforts to meet financed emissions targets, these "phaseout" emissions can be reported separately from other emissions.

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[18] Carbon Market Watch, Corporate Climate Responsibility Monitor 2023, p.67, February 2023
[19] SBTi Criteria and Recommendations Version 4.2, p.7, April 2021
[20] Bloomberg, Mark Carney walks back Brookfield Net-Zero Claim After Criticism, 25 February 2021

5) Piling Complexity upon Complexity, Opacity upon Opacity

GFANZ claims that the methodologies proposed in this paper "can foster transparency and accountability of net zero commitments" (p.7). This stands reality on its head. Its proposed EER methodology would involve numerous subjective assumptions which would, given the record of GFANZ members' lack of clear disclosures on the methodologies used for their decarbonization targets and other net zero-related policies, very likely be hidden from public view. This paper's proposals would add additional intertwined layers of complexity to the already inherently complex issue of decarbonizing finance and make FIs' claims of climate responsibility even harder to disentangle.

Another example of the promotion of unnecessary methodological complexity is a proposal to differentiate non-nature-based climate solutions into "Solutions" and "Enablers". GFANZ defines "Solutions" as technologies and activities that "directly contribute to the elimination, removal or reduction" of GHGs. Enablers are "assets that indirectly contribute to, but are critical for, emission reductions by facilitating the deployment and scaling of Solutions" (p15). Examples given for Enablers are EV battery and smart grid companies. However, many companies' activities would be a mixture of these two types of activities (e.g. a car company that produces its own batteries, or a solar developer that also installs batteries) and it is unclear what would be gained by attempting to define what portion of finance to such companies should be allocated to the Solutions or Enablers category.

One of the "proposed attributes" of climate solution companies is that *a majority* of their revenue, or other financial KPIs like profit or capex should not be generated from high-emitting activities. This implies that finance to a company could be included in Solutions or Enablers targets even if just under half of their revenue/profit was from (or capex spent on), say, coal plants or gas pipelines.

Conclusion:

We strongly agree with the assertion that:

> "Prioritization of the reduction of financed emissions alone will not drive the financing necessary to unlock the required real-economy emissions reduction." (p.5)

This would be true even if there was a widely accepted financed emissions methodology which accurately captured the actual emissions for which an FI is responsible, and their changes over time. Unfortunately, as some FIs and others have pointed out, this is not yet the case.[21]

Financed emissions methodologies need to be greatly improved, and targets need to be made more transparent and ambitious. And, more importantly, for FIs to meaningfully contribute to achieving real-world emission reductions, they will need to adopt robust and comprehensive net-zero transition plans with elements including those laid out by HLEG and many other standard-setting and -influencing bodies. Many of these elements have been mentioned by GFANZ itself in its papers on transition plans.

However the EER approach is at best a diversion from the need to improve financed emissions approaches and embed them within robust transition plans. Increasing the allocation of capital to

[21] See e.g. Citi, TCFD Report 2022, p.26, 2023

accelerate the energy transition should be a part of financial institution transition plans and is already included within many institutions' "clean" finance targets; it should not require the creation of an opaque, highly complex, easy to manipulate, and likely counter-productive new metric.

For questions on these comments please contact Paddy McCully – paddy@reclaimfinance.org